TOWN OF MOUNT AIRY

MOUNT AIRY, GEORGIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2013

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ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2013

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the Town Commission
Town of Mount Airy
Mount Airy, Georgia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the remaining fund information of the Town of Mount Airy, Georgia, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the Town of Mount Airy, Georgia as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows, and the budgetary comparison of

the General Fund , for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information. Accounting principles generally accepted in the United States of America also requires that the Budget Comparison Schedule and the Schedule of Funding Progress on pages 24-26 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Expenditures of Special Purpose Local Option Sales Tax Proceeds (as required by the Official Code of Georgia Annotated 48-8-21) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2014 on our consideration of the Town of Mount Airy, Georgia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Mount Airy, Georgia's internal control over financial reporting and compliance.

Duncan & Kitchens, LLC
Certified Public Accountants
Clarkesville, Georgia
May 22, 2014

BASIC FINANCIAL STATEMENTS

TOWN OF MOUNT AIRY, GEORGIA
STATEMENT OF NET POSITION
DECEMBER 31, 2013

EXHIBIT 1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash	$ 654,813	$ 174,590	$ 829,403
Accounts Receivable-Net	11,495	37,423	48,918
Internal Balances	(1,236)	1,236	-
Total Current Assets	665,072	213,249	878,321
Non-current Assets			
Capital Assets			
Non-Depreciable	947	16,759	17,706
Depreciable Assets - Net	134,065	245,711	379,776
Total Non-current Assets	135,012	262,470	397,482
TOTAL ASSETS	800,084	475,719	1,275,803
LIABILITIES			
Current Liabilities			
Accounts Payable	1,969	1,329	3,298
Water Deposits		24,401	24,401
TOTAL LIABILITIES	1,969	25,730	27,699
NET POSITION			
Investment in Capital Assets	135,012	262,470	397,482
Amounts Restricted for:			
Capital Projects	177,507		177,507
Unrestricted	485,596	187,519	673,115
TOTAL NET POSITION	$ 798,115	$ 449,989	$ 1,248,104

The accompanying notes are an integral part of this statement.

TOWN OF MOUNT AIRY, GEORGIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

EXHIBIT 2

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total
Primary Government							
Governmental Activities							
General Government	$ 142,632	$ 13,533	$	$ 29,857	$ (99,242)	$	$ (99,242)
Police	58,889	10,031		3,870	(44,988)		(44,988)
Streets and Roads	50,926			53,499	2,573		2,573
Parks	4,512			5,529	1,017		1,017
Total Governmental Activities	256,959	23,564		92,755	(140,640)		(140,640)
Business-type Activities							
Water and Sewer	328,795	258,151				(70,644)	(70,644)
GCIC	188,931	264,741				75,810	75,810
Total Business-type Activities	517,726	522,892				5,166	5,166
Total Primary Government	$ 774,685	$ 546,456	$	$ 92,755	(140,640)	5,166	(135,474)
General Revenues:							
Taxes:							
Property					90,076		90,076
Franchise					22,249		22,249
Beer and Wine					9,119		9,119
Liquor Tax					14,917		14,917
Insurance Premium					70,174		70,174
Licenses and Permits					22,328		22,328
Unrestricted Investment Earnings					1,120	15	1,135
Miscellaneous					388	14,590	14,978
Transfers					(40,430)	40,430	-
Total General Revenues and Transfers					189,941	55,035	244,976
Change in Net Position					49,301	60,201	109,502
Net Position - Beginning of Year					748,814	389,788	1,138,602
Net Position - End of Year					$ 798,115	$ 449,989	$ 1,248,104

The accompanying notes are an integral part of this statement.

TOWN OF MOUNT AIRY, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

EXHIBIT 3

	GENERAL FUND	SPLOST CAPITAL PROJECTS	GOVERNMENTAL FUNDS
ASSETS			
Cash	$ 477,306	$ 177,507	$ 654,813
Accounts Receivable - Net	11,495		11,495
Due from Other Funds	1,650		1,650
TOTAL ASSETS	$ 490,451	$ 177,507	$ 667,958
LIABILITIES			
Accounts Payable	$ 1,969	$	$ 1,969
Due to Other Funds	2,886		2,886
TOTAL LIABILITIES	4,855		4,855
DEFERRED INFLOWS OF RESOURCES			
Unavailable Property Tax Revenue	7,406		7,406
FUND BALANCES			
Restricted:			
Capital Projects		177,507	177,507
Unassigned	478,190		478,190
TOTAL FUND BALANCES	478,190	177,507	655,697
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 490,451	$ 177,507	$ 660,552

Adjustments to the Statement of Net Position

Fund Balance	$ 655,697
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds	135,012
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Property Taxes	7,406
Net Position of Governmental Activities (Exhibit "1")	$ 798,115

The accompanying notes are an integral part of this statement.

TOWN OF MOUNT AIRY, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

EXHIBIT 4

	GENERAL FUND	SPLOST CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Taxes			
Property	$ 84,743	$	$ 84,743
Franchise	22,249		22,249
Beer and Wine Tax	9,119		9,119
Liquor Tax	14,917		14,917
Insurance Premium	70,174		70,174
License and Permits	22,328		22,328
Charges for Services	13,533		13,533
Fines and Forfeitures	10,031		10,031
Intergovernmental		55,290	55,290
Interest Income	1,120		1,120
Grants	37,465		37,465
Other	388		388
TOTAL REVENUE	286,067	55,290	341,357
EXPENDITURES			
Current:			
General Government	138,786	2,847	141,633
Police Department	53,234	1,800	55,034
Streets and Sanitation	43,405		43,405
Parks	4,512		4,512
TOTAL EXPENDITURES	239,937	4,647	244,584
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	46,130	50,643	96,773
OTHER FINANCING SOURCES (USES)			
Transfers In	60,000		60,000
Transfers Out	(100,430)		(100,430)
TOTAL OTHER FINANCING SOURCES (USES)	(40,430)		(40,430)
Net Change in Fund Balances	5,700	50,643	56,343
FUND BALANCE - BEGINNING OF YEAR	472,490	126,864	599,354
FUND BALANCE - END OF YEAR	$ 478,190	$ 177,507	$ 655,697

Adjustments to the Statement of Activities	
Net Change in Fund Balance	$ 56,343
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These include recognition of unavailable deferred revenue.	5,333
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which Depreciation ($20,375) exceeded Capital Outlays ($8,000).	(12,375)
Change in net position of governmental activities (Exhibit 2)	$ 49,301

The accompanying notes are an integral part of this statement.

TOWN OF MOUNT AIRY, GEORGIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

EXHIBIT 5

	WATER ENTERPRISE FUND	GCIC	TOTAL
ASSETS			
Current Assets:			
Cash	$ 99,034	$ 75,556	$ 174,590
Accounts Receivable	11,517	25,906	37,423
Due From Other Funds		2,886	2,886
Total Current Assets	110,551	104,348	214,899
Non-current Assets:			
Capital Assets			
Nondeprecible Assets	16,759		16,759
Depreciable Assets -net	245,711		245,711
Total Non-current Assets	262,470		262,470
TOTAL ASSETS	373,021	104,348	477,369
LIABILITIES			
Current Liabilities			
Accounts Payable	1,329		1,329
Due to General Fund	1,650		1,650
Water Deposits	24,401		24,401
Total Current Liabilities	27,380		27,380
TOTAL LIABILITIES	27,380		27,380
NET POSITION			
Investment in capital assets	262,470		262,470
Unrestricted	83,171	104,348	187,519
TOTAL NET POSITION	$ 345,641	$ 104,348	$ 449,989

The accompanying notes are an integral part of this statement.

TOWN OF MOUNT AIRY GEORGIA
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

EXHIBIT 6

	WATER ENTERPRISE FUND	GCIC	TOTAL
OPERATING REVENUES			
Water Sales	$ 151,433	$	$ 151,433
Garbage	69,037		69,037
Fire Protection	37,681		37,681
GCIC Fees	-	264,741	264,741
TOTAL OPERATING REVENUES	258,151	264,741	522,892
OPERATING EXPENSES - By Department			
Water	208,712		208,712
Garbage Collection	64,317		64,317
Fire Protection	31,886		31,886
GCIC		188,931	188,931
Depreciation	23,880		23,880
TOTAL OPERATING EXPENSES	328,795	188,931	517,726
OPERATING INCOME	(70,644)	75,810	5,166
NON-OPERATING REVENUES (EXPENSE)			
Interest Income	15		15
Other Income	14,590		14,590
TOTAL NON-OPERATING INCOME (EXPENSE)	14,605		14,605
INCOME (LOSS) BEFORE TRANSFERS	(56,039)	75,810	19,771
Transfers in (out)			
Transfers in	190,430	10,000	200,430
Transfers out	(70,000)	(90,000)	(160,000)
	120,430	(80,000)	40,430
CHANGE IN NET POSITION	64,391	(4,190)	60,201
NET POSITION - BEGINNING OF YEAR	281,250	108,538	389,788
NET POSITION - END OF YEAR	$ 345,641	$ 104,348	$ 449,989

The accompanying notes are an integral part of this statement.

TOWN OF MOUNT AIRY, GEORGIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

EXHIBIT 7

	WATER ENTERPRISE FUND	GCIC	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	$ 261,674	$ 246,608	$ 508,282
Payments to Suppliers	(228,852)	(78,804)	(307,656)
Payments to Employees	(76,063)	(110,127)	(186,190)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(43,241)	57,677	14,436
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES			
Receipts from other funds	190,430		190,430
Payments to other funds	(70,000)	(80,000)	(150,000)
Payments for acquisitions of capital assets	(127,072)		(127,072)
	(6,642)	(80,000)	(86,642)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Other Income	14,590		14,590
NET CASH PROVIDED (USED) FOR NONCAPITAL AND RELATED FINANCING ACTIVITIES	14,590		14,590
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Earned	15		15
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	15		15
NET INCREASE IN CASH AND CASH EQUIVALENTS	(35,278)	(22,323)	(57,601)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	134,312	97,879	232,191
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 99,034	$ 75,556	$ 174,590
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	$ (70,644)	$ 75,810	$ 5,166
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities			
Depreciation	23,880		23,880
(Increase) Decrease in Accounts Receivable	3,663	(15,247)	(11,584)
Increase (Decrease) in Due To Other Funds	1,650		1,650
(Increase) Decrease in Due from Other Funds		(2,886)	(2,886)
Increase (Decrease) in Accounts Payable	1,329		1,329
Increase (Decrease) in Service Deposits	(3,119)		(3,119)
TOTAL ADJUSTMENTS	27,403	(18,133)	9,270
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ (43,241)	$ 57,677	$ 14,436

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government Unit

The Town of Mount Airy (the "Town") was incorporated under the laws of the State of Georgia in 1874 and operates under an elected mayor-commission for of Government. The Town's combined financial statements include the accounts of all the Town's operations.

The financial statements of the Town of Mount Airy have been prepared in conformity with the accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for the Town's accounting and financial reporting policies. The more significant of the Town's accounting policies are described below.

A. Financial Reporting Entity

Component units are legally separate organizations for which the Town is financially accountable. The Town is financially accountable for an organization if the Town appoints a voting majority of the organization's governing board and (1) the Town is able to significantly influence the programs or services performed or provided by the organization; or (2) the Town is legally entitled to or can otherwise access the organization's resources; the Town is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the Town is obligated for the debt of the organization. Component units also may include organizations that are fiscally dependent on the Town in that the Town approves the budget, levies taxes or issues their debt.

Based on the aforementioned criteria, the Town has no component units.

B. Basis of Presentation

The Town's basic financial statements consist of government-wide statements, including a statement of net position, a statement of activities and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements - The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. Individual funds are not displayed. The statements distinguish between governmental activities, generally supported by taxes, intergovernmental revenues, and other non-exchange transactions and business-type activities, which are generally financed in whole or in part by fees charged to external parties.

The statement of net position presents the financial position of the governmental and business type activities of the Town at year end.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities, for identifiable activity of the business-type activities of the Town. Direct expenses are those that are clearly identifiable with a specific function or segment. The Town does not allocate indirect expenses to functions in the statement of activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional

NOTE 1 – (Continued)

activity. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. These revenues are subject to externally imposed restrictions to these program uses.

For identifying to which function program revenue pertains, the determining factor for *charges for services* is which function *generates* the revenue. For *grants and contributions*, the determining factor is to which functions the revenues are *restricted.*

Taxes and other revenue sources not properly included with the program revenues are reported as general revenues of the Town. The comparison between direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the Town.

Fund Financial Statements – During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. Fund financial statements are provided for governmental and proprietary funds.

Major individual governmental and enterprise funds are reported in separate columns.

Fund Accounting – The Town uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The Town uses two categories of funds: governmental and proprietary.

Governmental Funds: - Governmental Funds are those through which most of the governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balance of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The Town reports the difference between governmental fund assets and liabilities as fund balance. The following are the Town's major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for the funds from the Town's share of the Habersham County Special Purpose Local Option Sales Tax.

Proprietary Funds*:* – Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The Town has two major proprietary funds:

The *Water Fund* accounts for the operation of the water system including all revenues from sources applicable to the system's operations and all expenses of its operations.

The *GCIC Fund* accounts for the operations of the criminal background checks performed by the Town through the Georgia Crime Information Center.

NOTE 1 – (Continued)

C. – Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Town are included in the statement of net position. The statement of activities reports revenues and expenses.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Like the government-wide statements, all proprietary funds types are accounted for on a flow of economic resources measurement focus on both financial reporting levels. All assets and liabilities associated with the operation of these funds are included on the statements of net position. The statements of changes in fund net position present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Town finances and meets the cash flow needs of its proprietary activities.

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

At the fund reporting level, governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting at both reporting levels. Differences in the accrual method and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues- Exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the calendar year which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current calendar year. For the Town, the phrase "available for exchange transactions" means expected to be received within 60 days of year end.

Revenues – Non-exchange Transactions – Non-exchange transactions, in which the Town receives value without directly giving equal value in return, includes sales tax, property taxes, grants and donations. On an accrual basis, revenue from sales tax is recognized in the period in which the taxable sale takes place. Revenue from property taxes is recognized in the calendar year for which the taxes are levied. Revenue from grants and donations is recognized in the calendar year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specific the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected within 60 days for property taxes and other non-exchange transactions) before it can be recognized.

NOTE 1 – (Continued)

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: property taxes, sales tax, special assessments and federal and state grants.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred, if measurable. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

D Assets, Liabilities and Equity

1. ***Cash and Investments*** - Cash and cash equivalents include amounts in demand and time deposits as well as short-term investments with a maturity date within three months of the date acquired by the Town. Cash and cash equivalents are reported on the balance sheets, statements of net position and in cash flow statements.

   State statutes authorize the Town to invest in the following types of obligations:
   - Obligations of the State of Georgia or of any other states
   - Obligations of the United States Government
   - Obligations fully insured or guaranteed by the United States Government or Government Agency
   - Obligations of any corporation of the United States Government
   - Prime Bankers acceptances
   - The State of Georgia local government investment pool (i.e., Georgia Fund 1)
   - Obligations of the other political subdivisions of the State of Georgia

2. ***Receivables*** – Levied property taxes are recorded as receivables and recognized as revenue in the year they become due. The levy is made on assessed valuations as of January 1, and the taxes are due on December 20 of each year.

   The tax bills are mailed at least 60 days prior to the due date. The billings are considered past due 60 days after the tax billings date or December 20, whichever is later, at which time the applicable property is subject to lien, and penalties are assessed.

   All trade and property tax receivables are shown net of an allowance for uncollectibles, where applicable.

3 *Interfund Balances*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to /from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

4 *Inventories*

The cost of supplies is recorded as expenditure at the time the individual items are purchased. The amount of inventory on hand is insignificant and therefore not recorded.

NOTE 1 – (Continued)

5. *Capital Assets*

Capital outlays are recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent that the Town's capitalization threshold is met. The Town capitalizes asset purchases valued at $5,000 or more. Depreciation is recorded on general fixed assets on a government-wide basis. Capital outlays of the Proprietary Fund are recorded as fixed assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis. All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays of capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the assets constructed. No interest was capitalized during 2013.

Infrastructure (roads, bridges and traffic lights) acquired prior to January 1, 2000 have not been reported.

6 *Compensated Absences*

The Town's policy does not allow the accumulation of vacation pay beyond a six-month period subsequent to year-end. Vacation taken subsequent to year-end requires approval of the department head and the Mayor and is lost if not taken by the end of the six-month period. The amount of 2013 vacation time taken in 2014 could not be reasonably estimated but it deemed to be immaterial. Sick pay benefits are nonvesting accumulating rights and are not accrued as allowed by FASB-43 (Accounting for Compensated Absences).

7 *Accrued Liabilities and Long-term Obligations*

The Town reports long-term debt of governmental activities at face value in the Government-wide Statement of Net Assets. Long-term debt is not reported for governmental activities in the fund financial statements. Long-term debt and other obligations financed by the proprietary fund are reported as liabilities in both the Government-wide and fund financial statements.

8 *Fund Equity*

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

Fund balance – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- *Nonspendable* – Fund balances are reported as nonspendable when the amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash like inventories and prepaid items) or (b) legally or contractually required to be maintained intact.

NOTE 1 – (Continued)

- *Restricted* – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- *Committed* – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Commissioners through the adoption of a resolution prior to the end of the fiscal year. In order to modify or rescind the commitment, the Board of Commissioners must adopt another resolution.
- *Assigned-* Fund balances are reported as assigned when the amounts are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the Board of Commissioners has authorized the Town's finance director to assign fund balances.
- *Unassigned* – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The Town reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all other governmental funds.

Net Position – The net position represents the difference between assets and liabilities. The net position component "invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt used for the acquisition, construction, or improvement of those assets. In determining the outstanding balance of any borrowing, proceeds of that debt which has not been spent is deducted. Accounts payable for costs related to acquisition, construction, or improvement of those capital assets is considered debt for this calculation. Net assets are reported as restricted as described in the fund balance section above. All other assets are reported as unrestricted.

Fund Balance Flow Assumptions – Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position Flow Assumptions – Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted- net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

9 *Operating Revenue and Expenses*

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Town, these revenues are charges for services for water and development. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of each fund.

10 *Interfund Activity*

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/ expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related

NOTE 1 – (Continued)

cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

11 *Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Accordingly, actual results could differ from those estimates.

12 *Deferred Outflows/Inflows of Resources*

The Town implemented GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB No. 65, *Items Previously Reported as Assets and Liabilities* in fiscal year 2013. This implementation resulted primarily in changes to terminology and the elimination of reporting unamortized debt issuance costs (i.e., unamortized loan origination fees) as a deferred charge.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources, This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditures) until then. The Town has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents the acquisition of net position that applies to future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and these amounts are deferred and will be recognized as an inflow of resources in the period in which the amounts become available.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Town finance director prepares a draft of the annual budget from which the Commissioners prepare a proposed budget. The Town then advertises in a local newspaper giving notice regarding a public hearing in which local citizens may give their input regarding the proposed budget. The Town also places a copy of the proposed budget on file for public inspection prior to actual approval. Once all of the steps have been taken, the Commissioners then formally adopt the annual, balanced budget. The legal level of control of the budget is at the department level. All appropriations lapse at year end. During the current fiscal year, there were no amendments made to the original budget.

The Commission annually adopts budgets for the General Fund of the Primary Government. All appropriations are legally controlled at the departmental level for the General Fund. The budgets are integrated into the accounting system, and the budgetary, as presented in financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance

NOTE 2 – (Continued)

accounting - under which purchase orders, contracts and other commitments for the expenditures are recorded to reserve that portion of the applicable appropriation - is not utilized by the Town of Mount Airy.

NOTE 3 – DEPOSIT AND INVESTMENT RISK

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the Town's deposits may not be returned. The Town has no formal policy, but follows the State of Georgia requirement that all deposits be federally insured or fully collateralized. At December 31, 2013 the Town had no uninsured, uncollateralized deposits.

Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Stat of Georgia law limits investments to include certificates of deposit, repurchase agreements, direct and agency obligations of the United States, obligations of the State of Georgia or other states, obligations of other political subdivisions of the State of Georgia, and pooled investment programs of the State of Georgia. The Town has no investment policy that would further limit the investment choices. Investments are to be reported at fair value.

Concentration of Credit Risk

The Town has no formal policy on the amount the Town may invest in any one issuer.

Foreign Currency Risk

The Town has no investments denominated in a foreign currency.

NOTE 4 - RECEIVABLES

Receivables at December 31, 2013 consisted of the following:

	General Fund	Enterprise Fund	Total
Receivables:			
Taxes	$ 11,495	$	$ 11,495
Water and Sewer Receivables		37,423	37,423
Total Receivables	$ 11,495	$ 37,423	$ 48,918

The delinquent taxes receivable account represents uncollected tax levies. The Town maintains an allowance for doubtful accounts of $1,000.

Property taxes are assessed as of January 1, 2013 on property values. Taxes were levied on October 20, 2013 for the 2013 tax year, and were due on December 20, 2013. All unpaid taxes levied on October 20, 2013 become delinquent as of December 20, 2013. Interest and penalties accrue after December 20, 2013.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within 60 days after year end.

NOTE 5 – INTERFUND BALANCES

DUE TO - FROM OTHER FUNDS

Major Funds		
Due To	**Due From**	**Amount**
General	Water	1,650
GCIC	General	2,886
Total		$ 4,536

INTERFUND TRANSFERS

Major Funds				
	General	Water	GCIC	Total
Transfer Out To:				
Major Funds				
General Fund	$	$ (60,000)	$	$ (60,000)
Water Fund	(100,430)		(90,000)	(190,430)
GCIC		(10,000)		(10,000)
Transfer In From:				
Major Funds				
General Fund		100,430		100,430
Water Fund	60,000		10,000	70,000
GCIC		90,000		90,000
Total	$ (40,430)	$ 120,430	$ 80,000	$ -

Interfund transfers are used to 1) move revenues from the fund that statute or budget requires them to the fund that statute or budget requires to expend them, and 2) use restricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers are eliminated in the government-wide financial statements if the interfund transfer is within the governmental fund group or business-type group.

NOTE 6 - CHANGES IN FIXED ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

Governmental-Type Activities:

	Balance 01/01/13	Additions	Deletions	Balance 12/31/13
Capital Assets not being Depreciated				
Land	$ 947	$	$	$ 947

NOTE 6 – (Continued)

Depreciable Assets				
Buildings	$ 256,324	$ 8,000	$	$ 264,324
Machinery & Equipment	218,425			218,425
Total Depreciable Assets	474,749	8,000		482,749
Less: Accumulated Depreciation				
Building	(186,900)	(7,982)		(194,882)
Machinery & Equipment	(141,409)	(12,393)		(153,802)
Total Accumulated Depreciation	(328,309)	(20,375)		(348,684)
Net Depreciable Assets	146,440	(12,375)		134,065
Governmental activities assets, net	$ 147,387	$ (12,375)	$	$ 135,012

Depreciation was charged to governmental functions as follows:

General Government Administration	$ 8,999
Police	3,855
Streets and Sanitation	7,521
Total	$ 20,375

Business-Type Activities:

	Balance 01/01/13	Additions	Deletions	Balance 12/31/13
Capital Assets not being Depreciated				
Land	$ 16,759	$	$	$ 16,759
Depreciable Assets				
Well Housing	$ 18,852	$	$	$ 18,852
Water System	479,532	127,072		606,604
Water Tanks	185,317			185,317
Total Depreciable Assets	683,701	127,072		810,773
Less: Accumulated Depreciation				
Well House	(13,000)	(3,608)		(16,608)
Water System	(342,865)	(20,272)		(363,137)
Water Tanks	(185,317)			(185,317)
Total Accumulated Depreciation	(541,182)	(23,880)		(565,062)
Net Depreciable Assets	142,519	103,192		245,711
Business -Type activities assets, net	$ 159,278	$ 103,192	$	$ 262,470

In the governmental and business-type activities, the following estimated useful lives are used to compute depreciation using the straight-line method:

General Government Buildings	40 Years
Streets	5-20 Years
Water System	50 Years
Machinery and Equipment	5-20 Years

NOTE 7 - EMPLOYEE RETIREMENT PLAN

Plan Description

The Town contributes to the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer defined benefit pension plan that acts as a common investment and administrative agent for cities and municipalities in Georgia. Authority to establish and amend benefit provisions is held by the Town Council of the Town of Mounty Airy. The plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Section 47-20-10 of the Georgia Code sets forth the funding standards for state and local government pension plans. Administrative expenses are based on total covered payroll of plan members and are added to the annual funding requirement. The GMEBS issues a publicly available financial report that includes financial statements and required supplementary information for the Town of Mount Airy retirement plan. That report may be obtained by writing to Georgia Municipal Association, 201 Pryor Street, SW, Atlanta, Georgia 30303.

Vested employees who have reached the age of 65 and have completed five years of credited service are eligible to receive a monthly benefit, payable for life. The benefit is equal to 1.0% of the employees' average salary up to a floating break point and 1.75% of the employee's average salary above the floating break point for the five highest years of employment multiplied by the years of credited service. The floating break point is based upon average Social Security earnings determined by the employee's year of employment termination. The plan also provides benefits in the event of death or disability. These benefits provisions were established by an adoption agreement executed by the Town Council.

Vested employees who have reached age 55 with at least ten years of credited service are eligible to receive an early retirement benefit, payable monthly for life, reduced on an actuarial equivalent basis. Death benefits and optional forms of retirement income on an actuarial equivalent basis are also available.

Current Membership is as follows:

Retirees and beneficiaries currently receiving benefits	11
Terminated vested participants	5
Active vested participants	8
Active non-vested participants	4
Total number of participants	28

Funding Policy

Town employees are not required to contribute to the Plan. The Town is required to contribute at an actuarially determined rate; the current rate is 20.85% of annual covered payroll. This new contribution represents an 11.05% decrease of pay from the 31.90% previous calculation. The contribution requirements of plan members and the Town are established and may be amended by the Georgia Municipal Employee Benefit System Board of Trustees.

Annual Pension Cost

For 2013 the Town's annual pension cost of $38,816 to GMEBS was equal to the Town's required and actual contributions. The last actuarial valuation date was July, 2013. The funding policy for the plan is to contribute an amount equal to the recommended contribution in each year. The recommended contribution meets the guidelines

NOTE 7 – (Continued)

for calculating annual required contributions set forth in Paragraphs 9-10 of Statement No. 27. These contributions are determined under the projected unit credit actuarial cost method and the asset valuation method for developing the actuarial value of assets. The period, and related method, for amortizing the initial unfunded actuarial liability is 30 years from 1982 and the current changes in the unfunded actuarial accrued liability over 15 years for actuarial gains and losses, 20 years for plan provisions and 30 years for actuarial assumptions and cost methods as a level dollar amount. These amortization periods, if applicable, are open for this plan year.

To minimize the effect of random variations in financial market values on the recommended contribution, the Board of Trustees adopted an asset valuation method for use in the calculation. The method for determining the actuarial value of assets is part of GMEBS actuarial funding policy. The smoothing technique gradually incorporates investment performance that exceeds or falls short of the expected return of 8%, which is the valuations investment return assumption.

The Town of Mount Airy Retirement Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06-30-08	$ 19,285	100.%	0
06-30-09	26,400	100.%	0
06-30-10	35,793	100.%	0
06-30-11	38,908	100.%	0
06-30-12	36,934	100.%	0
06-30-13	38,816	100.%	0

The Town of Mount Airy Retirement Plan
Analysis of Funding Progress

Actuarial Valuation Date July 1	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b)	Unfunded AAL (UALL) (b-a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)*
2008	348,748	383,136	91.02%	34,338	104,000	33.07%
2009	254,654	429,638	59.27%	174,984	120,385	145.35%
2010	343,669	422,469	81.35%	78,800	127,532	61.79%
2011	378,279	452,606	83.58%	74,327	129,342	57.47%
2012	406,287	490,862	82.77%	84,575	113,819	74.31%
2013	437,985	532,820	82.20%	94,835	182,952	51.84%

Effect of plan changes on the actuarial accrued liability of any current-year changes in assumption or benefit provisions is:

The plan provision valued and the actuarial assumptions are the same as those used in the preceding valuation. The actuarial assumptions have been changed since the preceding year and the effect will be provided upon request.

NOTE 7 – (Continued)

The effect on the recommended contributions of any current-year changes in actuarial assumptions, benefit provisions or actuarial funding method is:

The plan provisions valued and the actuarial assumptions and cost methods are the same as those used to determine the contribution requirement for the preceding year and the effect will be provided upon request.

Actuarial Assumptions and Methods:	
Economic Assumptions	
Interest Rate	7.8%
Annual Rates of Increase in:	
Inflation	3.5%
Salaries:	
Merit	3.5%
Cost of Living Adjustment	3.5%

NOTE 8 – CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts collected, may constitute a liability of the applicable funds. The amount, if any which may be disallowed by the grantor cannot be determined at this time although the government expects such amount, if any, to be immaterial.

The Town is not aware of any litigation or other contingent liabilities either in effect or pending against itself.

NOTE 9 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; Errors and omissions; injuries to employees; and natural disasters. The Town has joined together with other municipalities in the state as part of the Georgia Interlocal Risk Management Agency Property and Liability Insurance Fund and the Georgia Municipal Association Group Self-Insurance Workers Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for member local governments.

As part of these risk pools, the Government is obligated to pay all contributions and assessments as prescribed in the pools, to cooperate with the pool's agents and attorneys, to follow loss reduction procedures established by the fund, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The Government is also to allow the pool's agents and attorneys to represent the Government in investigation, settlement discussions and all levels of litigation arising out of any claim against the Government within the scope of loss protection furnished by the fund.

The Fund is to defend, in the name of and on behalf of the members, any suits or other proceedings which may at any time be instituted against them on account of injuries or death within the preview of the Worker's Compensation Law of Georgia, or on the basis of employer's liability, including suits or other proceedings, allegations or demands be wholly groundless, false or fraudulent. The fund is to pay all cost taxes against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiations or defense.

NOTE 9 – (Continued)

However, the enabling statute creating the Plans permits the funds to levy assessment upon its members to make up any deficiency the Plans may have in surplus or reserves. Since excess insurance is purchased by the Plans to protect them for catastrophic losses, no amount has been recorded in the financial statements for this contingency as management believes the likelihood for assessment is remote.

There have been no insurance settlements exceeding coverage within the past three years.

NOTE 10– GEORGIA MOUNTAIN REGIONAL COMMISSION

The Town of Mount Airy, in conjunction with cities and counties in the Northeast Georgia area, is a member of the Georgia Mountains Regional Commission. Membership in a commission is automatic for each municipality and Town in the state. The official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989) provides for the organizational structure of the commissions. Each Town and municipality in the state is required by law to pay minimum annual dues to the commission. The commission Board membership includes the chief elected official of each Town and the chief elected official of each municipality. The Town Board members and municipal Board members from the same Town elect one member of the Board who is a resident (but not an elected or appointed official or employee of the Town or municipality) to serve as the non-public Board member from a Town. Separate financial statements can be obtained from:

Georgia Mountains Regional Commission
P.O. Box 1720
Gainesville, Georgia 30503

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RDCs as "public agencies and instrumentalities of their members". Georgia laws also provide that the member governments are liable for any debts or obligations of a commission beyond its resources. (O.C.G.A. 50-8-39.1)

REQUIRED SUPPLEMENTARY INFORMATION
(unaudited)

In accordance with the Governmental Accounting Standards Board Statement No. 34,
The following information is a required part of the financial statements.

TOWN OF MOUNT AIRY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

EXHIBIT 8

	ORIGINAL BUDGET	BUDGET AS AMENDED	ACTUAL	VARIANCE FROM AMENDED
REVENUES				
Taxes				
Property	$ 94,975	$ 94,975	$ 84,743	$ (10,232)
Franchise	26,000	26,000	22,249	(3,751)
Beer and Wine Tax	17,200	17,200	9,119	(8,081)
Liquor Tax	26,000	26,000	14,917	(11,083)
Insurance Premium	60,000	60,000	70,174	10,174
License and Permits	21,325	21,325	22,328	1,003
Charges for Services	18,350	18,350	13,533	(4,817)
Fines and Forfeitures	20,050	20,050	10,031	(10,019)
Interest Income	4,100	4,100	1,120	(2,980)
Misc Income	7,000	7,000	388	(6,612)
Grants	0	0	37,465	37,465
TOTAL REVENUES	295,000	295,000	286,067	(8,933)
EXPENDITURES				
Current:				
General Government	158,150	158,150	138,786	19,364
Police Department	67,300	67,300	53,234	14,066
Streets	58,700	58,700	43,405	15,295
Parks	10,850	10,850	4,512	6,338
TOTAL EXPENDITURES	295,000	295,000	239,937	55,063
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	0	0	46,130	46,130
OTHER FINANCING SOURCES (USES)				
Transfers In	0	0	60,000	(60,000)
Transfers Out	0	0	(100,430)	100,430
TOTAL OTHER FINANCING SOURCES (USES)	0	0	(40,430)	40,430
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses			5,700	
FUND BALANCE - BEGINNING OF YEAR (ORIGINAL)			472,490	
FUND BALANCE - END OF YEAR			$ 478,190	

TOWN OF MOUNT AIRY, GEORGIA
SCHEDULE OF FUNDING PROGRESS FOR
TOWN OF MOUNT AIRY RETIREMENT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2013

Analysis of Funding Progress

Actuarial Valuation Date July 1	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b)	Unfunded AAL (UALL) (b-a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)*
2011	378,279	452,606	83.58%	74,327	129,342	57.47%
2012	406,287	490,862	82.77%	84,575	113,819	74.31%
2013	437,985	532,820	82.20%	94,835	182,952	51.84%

Effect of plan changes on the actuarial accrued liability of any current-year changes in assumption or benefit provisions is:

The plan provision valued and the actuarial assumptions are the same as those used in the preceding valuation. The actuarial assumptions have been changed since the preceding year and the effect will be provided upon request.

The effect on the recommended contributions of any current-year changes in actuarial assumptions, benefit provisions or actuarial funding method is:

The plan provisions valued and the actuarial assumptions and cost methods are the same as those used to determine the contribution requirement for the preceding year and the effect will be provided upon request.

TOWN OF MOUNT AIRY, GEORGIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
ON BUDGETARY ACCOUNTING AND CONTROL
YEAR ENDED DECEMBER 31, 2013

BUDGETARY ACCOUNTING AND CONTROL

The Town is required by law to adopt a budget. The procedures in establishing the budget reflected in the financial statements are as follows:

1. Prior to January1, the Town Clerk submits to the Town Commission a proposed operating budget for the fiscal year commencing January 1. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted at Town Hall to obtain taxpayer comments.

3. Prior to January 1, the Commission approves the budget.

4. The Town Clerk is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any department must be approved by the Town Commission.

5. Formal budgetary integration is employed as a management control device during the year for all funds.

6. The budget is presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule for the General Funds presents actual expenditures in accordance with accounting principles generally accepted in the United States on a basis consistent with legally adopted budget.

7. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

8. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting-under which purchase orders, contracts and other commitments for the expenditures are recorded to reserve that portion of the applicable appropriation, is not utilized by the Town of Mount Airy.

OTHER SUPPLEMENTARY INFORMATION

TOWN OF MOUNT AIRY, GEORGIA SCHEDULE 1

SUPPLEMENTARY INFORMATION

SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX

FOR THE YEAR ENDED DECEMBER 31, 2013

	Original Estimated Costs	Expenditures			Estimated Percentage of Completion
		Prior Years	Current Year	Total	
SPLOST V					
Recreation	$ 60,000	$ 39,126	$ -	$ 39,126	65.2%
Public Facilities	250,000	-	2,847	2,847	1.1%
Water Development	60,000	47,490	-	47,490	79.2%
Roads and Bridges	168,111	37,818	-	37,818	22.5%
Public Safety	40,000	3,185	1,800	4,985	12.5%
	$ 578,111	$ 127,619	$ 4,647	$ 132,266	

OTHER REPORTING SECTION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and
Members of the Town Commission
Town of Mount Airy
Mount Airy, Georgia

We have audited, in accordance with the standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Town of Mount Airy, Georgia, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town of Mount Airy, Georgia's basic financial statements and have issued our report thereon dated May 22, 2014.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town of Mount Airy, Georgia's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Mounty Airy, Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Mount Airy, Georgia's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. This is reported as item 2012-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Mount Airy, Georgia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Mount Airy, Georgia's Response to Findings

Town of Mount Airy, Georgia's response to the findings identified in our audit is described in the schedule of findings and responses. Town of Mount Airy, Georgia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Duncan & Kitchens, LLC

Duncan & Kitchens, LLC
Certified Public Accountants
Clarkesville, Georgia
May 22, 2014

12-1
Comment:

Condition: Town personnel may require additional training in the application of generally accepted principles and the preparation of financial statements. Currently, the Town relies on the external auditors for technical assistance in applying generally accepted accounting principles and the preparation of the financial statements. This is common in governments of similar size and structure to the Town. Under current auditing standards, providing technical assistance does not impair the independence of the external auditor. However, future changes to auditing standards by standards setting boards could state that providing technical assistance would impair the independence of the external auditor. This does not indicate that the Finance Director is not trained to perform the daily accounting functions, but that the Town has elected as a cost benefit to outsource this expertise to their auditors. As required, we have indicated this as a significant deficiency in our letter on Internal Control and Compliance.

Criteria: Effective internal control requires that the Town accept responsibility and understanding of the audited financial report.

Effect: Failure to understand the financial statements may lead to material misstatements.

Recommendation: Town personnel should continue to receive training in the identification and application of generally accepted accounting principles and the preparation of the Town's financial statements.

Management Response: Mount Airy, Georgia's Town Management concurs with this finding and understands the requirement of SAS 112 to issue this statement as a Significant Deficiency. All employees of the Board of Commissioners Finance Office will continue to seek training in the application of generally accepted accounting principles and in the preparation of the Town's financial statements. Until such time it is financially feasible for the Town finance staff to prepare the Town's financial statements, the Finance Office will continue to rely on an independent auditor to prepare them.